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# Laying The Foundation

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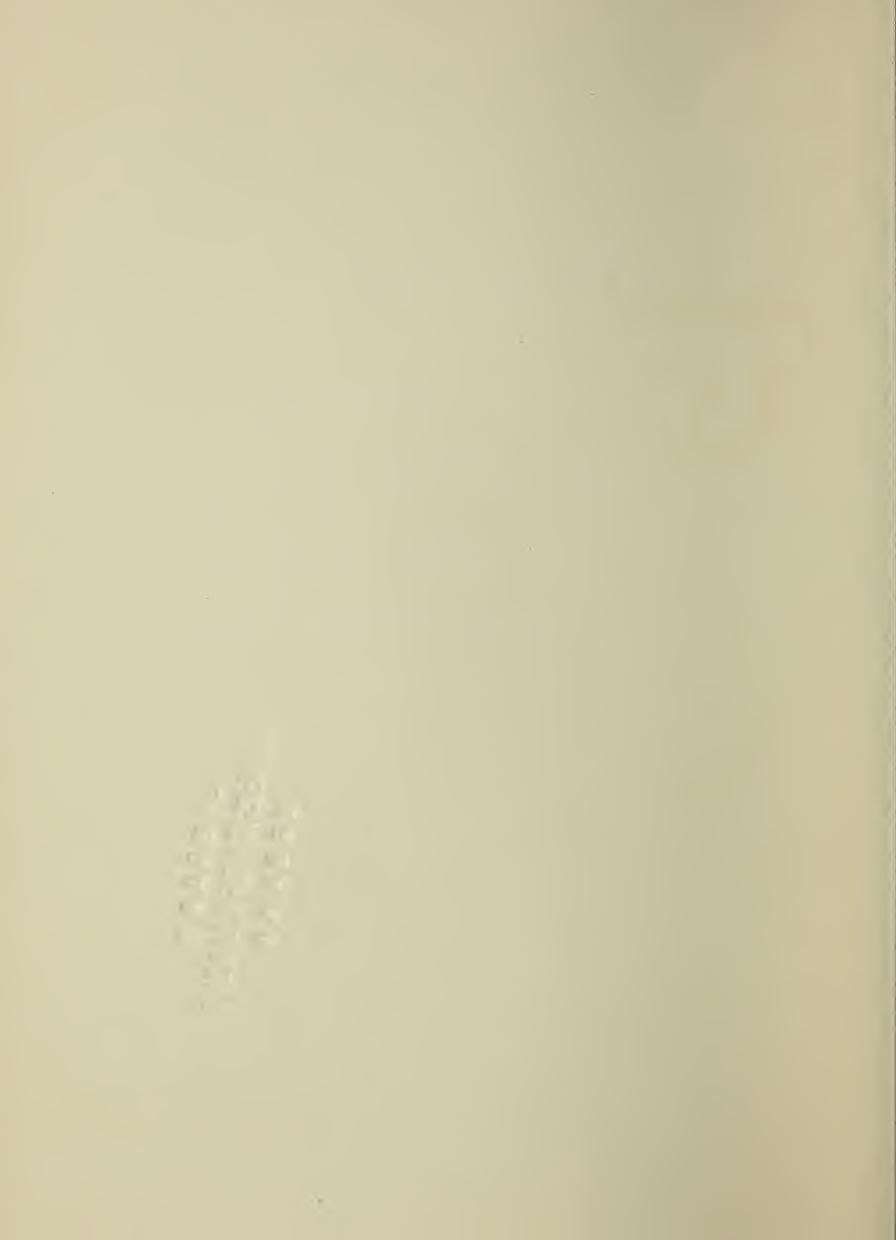
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# Laying the Foundation

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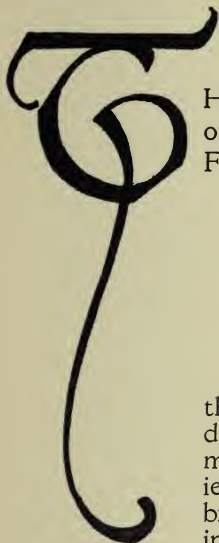


# LAYING THE FOUNDATION

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## FOREWORD




HIS booklet is the first of a series of four, covering every phase of Foreign Trade, as follows:

1. Laying the Foundation.
2. Pricing Goods for Export.
3. Filling the Export Order.
4. Collections in Foreign Trade.

No effort has been spared to make these booklets thoroughly practical and devoid of generalities. The subject matter is the outcome of actual experience, the aim being to combine brevity with the maximum of helpful information.

The other units to complete this series of booklets will be furnished by our Foreign Department on request as issued. This institution offers its services to those interested in developing their export business and will be pleased to supplement the information given in these booklets.

**Central National Bank  
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## *Laying the Foundation*

LET us assume that you are a successful manufacturer doing an excellent volume of domestic business over a period of years, but in the foreign field you are a "new-comer." If you have decided to expand your sales beyond the boundaries of the United States, this question confronts you: "How can I get my share of foreign trade on a sound, permanent basis, with the least necessary outlay of time and capital?"

First comes the problem of Market Analysis. The saving of much valuable time and money will depend upon the correct solution of this problem. Therefore, a little preliminary effort spent in investigating the sales possibilities of your product in a given market, before undertaking any introductory work, will prove ultimately to be a far-sighted business policy. In conducting such an investigation it remains for the individual company to utilize intelligently the means at hand.

This bank with its own foreign connections

Laying the Foundation its correspondent banks in New York City and their branches and other close affiliations throughout the world, places this service at your command. Come in and discuss your problem with the Manager of our Foreign Department. His aid will prove valuable to you in gathering such needed data as the following:

The demand in a given country as indicated by the export statistics of the United States and the imports of the country in question, covering your line.

The probable degree of foreign competition.

The Customs duties, whether favorable to your product or prohibitive.

The question of Trade Mark or patent protection.

Customary method of financing and credit terms.

Your domestic container and packing—are they suitable for export?

List of importers in a given country with whom to open correspondence.

Your local Chamber of Commerce places at your

command its Foreign Trade Department with its *Laying the* innumerable files of data and statistics for your *Foundation* reference. If this information is insufficient, it will forward your inquiry to The Bureau of Foreign & Domestic Commerce at Washington for further study, and, if you will indicate certain countries in which a special research is desired, the Consular officials located in the regions under consideration will be instructed to secure added information for your use. There are several other agencies devoted to such work in addition to the prominent export magazines published in this country. These magazines maintain an extensive corps to conduct just such surveys. Added to this is the invaluable aid available through your own bank or the institution issuing this series of booklets.

Such an investigation will point the way speedily to certain preferred markets, others which are moderately favorable and a residue where it would be almost useless to expend an effort. Owing to varying distances, it will require a considerably longer time to show results in some favorable countries than in others; but among the quick markets, for instance, will be found Canada, Mexico and Cuba.

*Laying the  
Foundation*

In planning any circularizing, the two-cent mail rate to a constantly increasing list of countries is also worthy of note. Compared with the quick markets, one finds at the other extreme such countries as the Union of South Africa and Australia, where an interchange of letters requires approximately three months, but where one finds a market for all of the modern products of a highly developed civilization. Also here the use of the English language simplifies matters.

For the first broad survey it will be found a convenience to group the countries of the world, the following being suggested:

1. North and Central America, including Canada, Newfoundland and Mexico.
2. Caribbean Region—Central America, British, French, Dutch and Danish West Indies, Cuba, Haiti, Dominican Republic, Venezuela, Columbia and Panama.
3. The remainder of South America.
4. Northwestern Europe, including United Kingdom, Netherlands, Belgium.
5. Northeastern Europe—Germany, Scandinavia,

6. Mediterranean and Black Sea Region—Portugal and Spain, France, Italy, North Africa and Egypt; Greece, the Balkans, Turkey, Southern Russia.
7. Asia, including Japan, China, Manchuria, Korea, India, Ceylon, Straits Settlements, Maylay, Peninsula, Dutch East Indies.
8. Australasia—Australia, New Zealand and South Pacific Islands.
9. Africa, not already included in Mediterranean Region.

Many experienced exporters have found it most efficient to work intensively in only one or two groups at a time, first eliminating the unlikely markets, then concentrating their effort upon the remainder instead of endeavoring to conduct investigations and initiating connections broadcast.

In outlining the above course of investigation, we have refrained from offering the trite advice that the best method is to send one of the responsible heads of the company into the field to investigate personally. Assuredly so doing offers

Laying the Foundation the advantages of any first-hand investigation, but this is expensive and many concerns prefer to see some evidence of returns and then send out their executive to round out the development work after they have proved the existence of an actual market.

### **Foreign Trade Successes Made At Home**

The fact remains that a number of foreign trade successes have been built up without travel by anyone from the home office at the beginning. The greatest difficulty is that the average American business man is not thoroughly posted upon the indirect means of investigation available. Perhaps the foreign department of this bank can prove helpful to you along this line.

It will be found that much territory can be covered with your English trade literature, among the important markets being United Kingdom, Australia, South Africa, India and Scandanavia. Spanish and French will be the next most important languages in which to prepare printed matter and arrange for translations of correspondence. Lists of countries and the language preferred, also

language of second choice, will be furnished upon request. *Laying the Foundation*

Before issuing export literature, it will prove a great convenience to your prospective customer and an economy to your own company, if, you will first carefully visualize the problem which your commodity presents to the buyer. Your trade practise should be fully explained and your ability to handle metric sizes indicated; remember that a full statement of weights packed for export will permit the buyer to calculate the ocean transportation and approximate the delivered cost. If your quotation is for instance f. a. s. New York, unless the buyer does know the weight he is helpless to compare your delivered price with that of your European competitor. A tremendous amount of time consumed in dictating explanatory letters can be saved by properly presenting the facts in your trade literature for export use. Our foreign department may be able to offer helpful suggestions along this line.

### **Study Your Publicity Problems**

In preparing literature in foreign languages, carefully consider whether or not to translate



Laying the Foundation trade names of your products, or to select a new name pronounceable in all leading languages. Names such as Pebeco, Lux, Ideal, etc., were shrewdly chosen by German manufacturers with this essential point in mind.

Along the line of printed publicity you will wish to consider such publications issued in this country as The American Exporter, Dun's International Review, Export American Industries, Ingenieria International, Pacific Ports and several other trade promotion channels from which to make a selection.

If your proposition lends itself to sampling, you are fortunate and the parcel post will be an important adjunct since it is possible to send parcels weighing 22 pounds, 11 pounds, or 4 pounds to many countries. The sample in the hands of your prospect is exceedingly valuable to you.

Ordinarily, shortly after beginning development work, the manufacturer begins to receive requests for the exclusive sales rights from numerous sources. This will give to rise such questions as:

Where will the American Commission House or Export Merchant fit into the plan of development.



When is it wise to grant exclusive or non-exclusive sales rights. *Laying the Foundation*

The various forms of sales arrangements and what each involves.

Determining upon a pricing policy (This subject is covered fully in the second unit of this series.)

Strategic points at which to locate distributors.

The question is frequently raised as to whether the aspiring exporter shall follow the policy of selling *directly* or *indirectly* (through the Export house). One of these methods should not preclude the other, as both have advantages and disadvantages. Do not, however, commit the error of granting the exclusive sales rights outside of the United States to any one export house.

### **Investigate Before Granting Agencies**

Where sales are made to the Export Commission House, in New York for instance, one very notable advantage is that you do not go beyond the New York firm for payment, it is domestic business in so far as financing is concerned. The matter of granting time, investigation of buyer's credit, arranging steamer reservation, complying

Laying the Foundation with consular requirements and arranging shipping documents; all of these details are avoided by the manufacturer when selling to the New York house.

Frequently the New York house will request that it be made your agent in which event it is well to remember that no commission house is equally strong in all countries or even in every part of one country. Look beyond the New York firm when considering such a request, especially ascertaining whether it has its own branch or merely an agency in the country in question. In the event of having its own branch house the arrangement may prove excellent, if the goods can be sold under the manufacturer's own brand, registered in the manufacturer's name and a minimum volume of sales guaranteed per annum. Unless care is exercised the manufacturer may find that he has granted an exclusive arrangement which has closed the door to his product through other similar concerns equally strong or stronger in the field in question who will not buy from one of their own competitors.

Unless the New York house has its own branch it usually is not desirable to grant the agency. In the past some manufacturers have learned to their regret the handicaps of an ill-considered

concession of this nature. In selling the New York *Laying the* commission house you do not know the name of Foundation the ultimate buyer; unless goods are sold under your own brand, your good-will and your ability to develop independently the market is absolutely nil. Such facts as this are vitally important to your interests years hence.

One should have an intelligent idea of the type of export house which is seeking the representation, whether manufacturers' agent, export commission house or export merchants. Frequently all of these functions are interwoven in the same organization. If so, you should know it when considering the matter of conceding sales rights. These houses perform a valuable service and disappointment in operating in relation with them is usually due to a haziness on the part of the manufacturer as to their legitimate place in his scheme of development. Our foreign department will be glad to discuss this subject in detail with interested manufacturers.

### **Methods of Representation**

Direct representation, that is, excluding an intermediary in this country, immediately will bring

*Laying the* up the question as to the form this agreement shall  
*Foundation* take. The available methods may be summarized  
as

1. Establishing one's own branch house.
2. Exclusive agency.
3. General agency.
4. Non-exclusive agency.
5. Sole distributor.

The first method may be dismissed as the most expensive type and something to be considered after the manufacturer has practically "found his place in the sun" in the Foreign Trade firmament.

The second or Exclusive Agency; this question will come up for decision among the very first, as approximately 90 per cent of the requests received will be for this type of representation. Usually your foreign inquirer will ask for the largest territory available with the strongest protection for himself, namely, exclusive rights. Undoubtedly you will grant some such agencies, but the utmost caution is suggested. Determine such matters as, for example, the financial standing of

the firm and its past record, the number and nature of accounts it is already handling, whether it can aggressively cover all of the territory it is requesting, how it proposes to cover the territory, by branches, travelers or sub-agencies. This merely suggests the trend of investigation desirable. *Laying the Foundation*

In a word, enter into the exclusive agency agreement as one of the most serious steps in your business activities. The question of entrusting all hope of business in a given region for a stipulated period to a single outlet, of delegating certain authority to act for you in your name must not be passed upon lightly. The distance of the other party from you makes the matter not less weighty, but more so. The experience of our foreign department may prove of value to you in connection with this and if so, it is at your command.

### **A Broad Form of Agency Agreement**

The third form of representation indicated is the General Agency. This is frequently resorted to, instead of granting the type above described. Investigation concerning the contracting party should be just as thorough as though

*Laying the* the agency were exclusive, and the question of  
*Foundation* how much territory to grant should be just as  
searching. The great advantage is that the manufacturer does not sign away his right to appoint other houses in the same area, as sub-agencies, of course reserving a commission for the general agent in the prices quoted the sub-agent. It is well to work in harmony with the general agent in such matters as he should be of material assistance to the sub-agent. Under this method the manufacturer has in his own hands a greater leverage in developing a volume of business from a given territory. This arrangement is working out very satisfactorily in actual practice.

Fourth, the Non-Exclusive Agency. When and how to enter into this type of arrangement largely depends upon your commodity and the concern with whom you are negotiating. Frequently a high-grade concern will accept the representation on this basis for a probationary period, looking to an exclusive arrangement after demonstrating the possibilities of the product in their country. This leaves the manufacturer free to negotiate with more than one company without loss of time, and to select ultimately the concern making the

best showing, if it is decided to make the relation *Laying the*  
exclusive. The weakness of this arrangement is Foundation  
the possiblity of your account receiving less at-  
tention than if the agent possessed exclusive  
rights; hence much depends upon the article you  
have to offer.

Fifth, the Sole Distributor. This has the feature  
of "placing all one's eggs in the same basket,"  
just as in an Exclusive Agency. The outstanding  
advantage is, that the term "Sole Distributor"  
definitely defines the scope of the relation to all  
third parties and limits the authority which has  
been delegated by the manufacturer. Present day  
law practically throughout the world is based  
either upon the Common Law or the Civil Law.  
The United States and the British Empire found  
their legal procedure upon the former, while almost  
all of the other civilized countries are controlled  
by the Civil Law, developed from the Roman Code.  
In some of these countries the duties and authority  
of an agency or representative are interpreted  
different from those in the United States, therefore  
it is wisest to define the relation very carefully or  
hold it to that of a sale distributor only.



Laying the Foundation In all of the arrangements above enumerated the contracting party may be a corporation, partnership, or an individual. Usually the strong incorporated company is to be preferred, although in many contries the laws controlling partnerships are far more rigid than in the United States. Investigation concerning the parties in question should determine your decision in each case.

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The purpose of this booklet is simply to suggest the channels open to the manufacturer interested in foreign trade and a more detailed discussion of any point will be gladly undertaken upon request.

Our experience with manufacturers dealing in foreign trade has resulted in mutual helpfulness and has increased our understanding of many of the problems to be faced. It is very likely these experiences will prove of value to the manufacturer contemplating expansion; and it is to such enterprises that these booklets are addressed with the suggestion that we be allowed to co-operate in the solution of such problems.

*Write for Booklet II*









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